UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK
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In re:

D.F.P., INC.,

Debtor.

Chapter 11

Case No. 16-75604-ast
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D.F.P., INC.,

Plaintiff,

-against-

PUTNAM BRIDGE FUNDING III, LLC and
PUTNAM AMAGANSETT FARM HOLDINGS, LLC,

Defendants.

Adversary Pro. No.:
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D.F.P., INC.. (the "Debtor") by its counsel, the Law Office of Michael G. Mc Auliffe, Esq., as and for its Complaint herein, respectfully alleges and represents to this Court as follows:

INTRODUCTION

1. This action relies on claims and rights arising under 11 U.S.C. Sections 105 and 506(d), and Federal Rules of Bankruptcy Procedure ("FRBP") 6009 and 7001.

2. This Court has jurisdiction over this action pursuant to 28 U.S.C. Sections 1334(a) and (b); 28 U.S.C. Section 157; and the standing Order of the District Court in this District, referring all bankruptcy cases filed in this District and all matters arising in and under said cases, and related to them, to the Bankruptcy Judges of this District, as the action arises in and under, and/or relates to, the Debtor's chapter 11 bankruptcy case (no. 16-75064-ast) currently pending before this Court.

3. Upon information and belief, this action is a core proceeding under 28 U.S.C. Section 157(b)(2)(K).

4. This is an action for the determination of the validity of an alleged secured lien held by the Defendant Putnam Bridge Funding III, LLC on the Debtor's parcel of real property located at 519 Montauk Hgwy, Amagansett, NY 11930 (the "Subject Property") pursuant to 11 U.S.C. Sections 105 and 506(d).

5. Upon information and belief, Defendant PUTNAM BRIDGE FUNDING III, LLC ("Putnam") is a corporation duly organized and existing under the laws of the State of Delaware, with an address for business located at 10 Glenville Road, Greenwich CT 06831.

6. Upon information and belief, Defendant PUTNAM AMAGANSETT FARM HOLDINGS, LLC ("Putnam Newco") is a corporation duly organized and existing under the laws of the State of Delaware, with an address for business located at 10 Glenville Road, Greenwich CT 06831.

BACKGROUND FACTS

7. On December 4, 2016 (the "Filing Date"), a voluntary petition for relief under Chapter 11 of the Bankruptcy Code (the "Petition") was filed on behalf of the Debtor.

8. The Debtor's Chapter 11 petition set forth that the Debtor is a Single Asset Real Estate case, as defined in 11 U.S.C. Section 101(51b).

9. Richard J. Principi, Jr. ("Principi") is the 100% owner and sole shareholder of the Debtor.

10. Since the middle of the twentieth century, the Principi family has been building and developing custom homes and commercial buildings on the East End of Long Island, particularly in East Hampton, Amagansett and Southhold, New York.

11. Due in large part to the severe economic crisis that struck our nation in 2008, as well as the ensuing issues with various secured creditors, Principi, his wife, sister and brother-in-law (collectively, the "Principi Family Members") (as the principals and sole equity interest holders) caused three of their companies to file for Chapter 11 relief, being: (a) Amagansett Family Farm, Inc. (bearing case no. 11-73929-ast); (b) Amagansett Commons, LLC (bearing case no. 11-73928-ast); and (c) Ocean Vine, Inc. (bearing case no. 11-73930-ast)(collectively, the "Amagansett Family Farm Case").

A. The Amagansett Family Farm Case

12. The primary assets of the Debtors in the Amagansett Family Farm Case were three parcels of real property located at 531, 551 and 561 Montauk Highway, Amagansett, NY 11930 (collectively, the "Amagansett Family Farm Properties").

13. In order to fund certain adequate protection payments required to be made to the secured creditor in the Amagansett Family Farm Case, Principi caused the Debtor, his wholly owned corporation, to give a first mortgage on the Subject Property (the "Siedlick Mortgage") to Larry Siedlick ("Siedlick") dated December 2, 2011[1].

14. The Debtors in the Amagansett Family Farm Case filed a joint Chapter 11 Plan of Reorganization that provided for the sale of all of the Amagansett Family Farm Properties to a

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[1] According to the proof of claim filed by Siedlick in this case (Claim No. 1 on the Court's Claims Register for this case), the amount due on account of the Siedlick Mortgage is $728,850.76. The Debtor does not dispute the validity of the Siedlick Mortgage.

newly formed corporation. Defendant Putnam was secured to be the entity that would provide the funds necessary to effectuate the aforementioned sale.

15. It was determined that in order for the Principi Family Members to have any ownership interest in the newly formed corporation, they would have to infuse substantial new value. The Principi Family Members formed Amagansett Development Partners, LLC ("Amagansett Development"), a limited liability company, for the purpose of having an ownership interest in the newly formed corporation that would purchase the Amagansett Family Farm Properties.

16. An agreement was reached with Putnam pursuant to which Putnam would fund the entirety of the new value to be infused by Amagansett Development (in the sum of $2,875,000.00)(the "New Value Loan"). This agreement was memorialized in the Second Amended and Restated Investor Agreement for Amagansett Family Farm, Inc. Chapter 11 dated April 4, 2012[2] (the "Investor Agreement").

17. The Investor Agreement provided, *inter alia*, that in order secure the New Value Loan, the Principi Family Members (through their wholly owned corporations) would provide a mortgage on three parcels of real property, as follows: (a) 519 Montauk Hgwy, Amagansett, NY 11930 - the Subject Property, wholly owned by the Debtor; (b) 521 Montauk Hgwy, Amagansett, NY 11930) owned by Villa Prince Ristorante Corp. ("Villa Prince"); and (c) 523 Montauk Hgwy, Amagansett, NY 11930 owned by Villa 523, LLC ("Villa 23").

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[2] A few changes were made to the Investor Agreement by an Amendment dated May 2, 2012. For the purposes hereof, the Investor Agreement shall be the Agreement as amended.

18. In order to memorialize the New Value Loan, the parties executed the following documents (collectively, the "New Value Loan Documents"):

a. Loan and Security Agreement dated May 2, 2012 (the "Loan & Security Agreement") - between Amagansett Development as Borrower, Putnam as Lender, and the Debtor, Villa Prince and Villa 23 as Mortgagors;

b. Secured Promissory Note dated May 2, 2012 (the "Secured Promissory Note") - between Amagansett Development as Borrower and Putnam as Lender;

c. Mortgage, Assignment of Rents and Security Agreement dated May 2, 2012 (the "Mortgage, Assignment of Rents and Security Agreement") - between Putnam as Lender, and the Debtor, Villa Prince and Villa 23 as Mortgagors.

19. The Mortgage, Assignment of Rents and Security Agreement was subsequently recorded with the Suffolk County Clerk as a lien against the Subject Property.

20. In further compliance with the terms of the Investment Agreement, on May 2, 2012 Amagansett Development and Putnam formed Defendant Putnam Newco for the purposes of effectuating the purchase of the Amagansett Family Farm Properties. The terms of the Putnam Newco LLC Agreement provided that Putnam would possess solely Class A stock and have all management and voting rights and that Amagansett Development would possess solely Class B stock and have no management or voting rights.

21. The closing on the sale of the Amagansett Family Farm Properties from the debtors in the Amagansett Family Farm Case to Putnam Newco occurred on May 2, 2012.

22. Prior to the closing, Putnam and Amagansett Development had agreed that they would sell the Amagansett Family Farm Properties as a single unit and they agreed upon a plan pursuant to which such a sale could be accomplished for a considerable profit. Principi, having decades of experience in the East End real estate market provided significant wisdom with regard

to how such a sale could be achieved, especially with regard to the zoning limitations that would be encountered.

23. However, despite their agreement prior to the closing, once the closing occurred, and once they were out from under the watchful eye of this Court, Putnam chose not to heed any of Principi's advice, opting instead to proceeded to market the Amagansett Family Farm Properties as it deemed fit. Principi's attempts to be involved in the marketing and sale of the Properties was rebuffed, ignored and refused. As such, much of the potential value of said Properties was lost.

24. Ultimately, upon information and belief, Putnam Newco sold all three of the Amagansett Family Farm Properties (albeit not in a single sale). Principi and Amagansett Development made numerous written and verbal requests for an accounting regarding the sale of the Amagansett Family Farm Properties, but such requests were wholly ignored and none was ever forthcoming.

25. While the amount realized from the sale of the Amagansett Family Farm Properties is unknown, upon information and belief, Putnam Newco realized sufficient monies from the sale of the Amagansett Family Farm Properties to satisfy any and all obligations arising under the New Value Loan Documents.

26. Putnam was listed on the Debtor's Schedule "D", received notice of the filing of the Debtor's Chapter 11 case and received notice of the bar date in the Chapter 11 case (being March 14, 2017), but Putnam failed to file a proof of claim in the case.

AS AND FOR A FIRST CLAIM FOR RELIEF

27. Plaintiff repeats, reiterates and realleges each and every allegation contained in paragraphs "1" through "26" of this Complaint as though fully set forth at length herein.

28. Despite due demand therefore, the Defendants have failed and refused to provide Plaintiff with an accounting of any and all monies generated by Putnam Newco, including but not limited to monies from the sale of the Amagansett Family Farm Properties, from May 2, 2012 through the present.

29. By virtue of the foregoing, Plaintiff is entitled to a full accounting of any and all monies generated by Putnam Newco, including but not limited to monies from the sale of the Amagansett Family Farm Properties, from May 2, 2012 through the present, together with the costs and disbursements of the instant action.

AS AND FOR A SECOND CLAIM FOR RELIEF

30. Plaintiffs repeat, reiterate and reallege each and every allegation contained in paragraphs "1" through "29" of this Complaint as though fully set forth at length herein.

31. Upon information and belief, Putnam's claim that formed the basis for the Mortgage, Assignment of Rents and Security Agreement has been wholly and fully satisfied.

32. As a result of the Mortgage, Assignment of Rents and Security Agreement having been satisfied, such lien against the Debtor's Subject Property is void.

33. By virtue of the foregoing, it is respectfully submitted that Plaintiff is entitled to a judgment declaring that the lien against the Debtor's Subject Property created by the Mortgage, Assignment of Rents and Security Agreement is void pursuant to 11 U.S.C. Section 506(d).

WHEREFORE, the Plaintiff respectfully requests that this Court enter judgment as follows:

a. as to the First Claim for Relief, directing the Defendants to provide Plaintiff with a full accounting of any and all monies generated by Putnam Newco, including but not limited to monies from the sale of the Amagansett Family Farm Properties, from May 2, 2012 through the present, together with the costs and disbursements of the instant action.;

b. as to the Second Claim for Relief, determining that the Mortgage, Assignment of Rents and Security Agreement is void pursuant to 11 U.S.C. Section 506(d); and

c. for such other and further relief as this Court deems just and proper under the circumstances.

Dated: Melville, New York
May 1, 2017

Law Office of Michael G. Mc Auliffe
Counsel to the Debtor

By: */s/ Michael G. Mc Auliffe*

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